

## **An Economist From a Different Era**

by Emiliano Brancaccio

"An intellectual disinclined to be a leader, but who was pervasively influential all the same." This is how, some years ago, Federico Caffé summed up the figure of James Tobin, underlining the noteworthy contrast between the American economist's shy and soft character and his extraordinary, trailblazing influence on the development of economic research. This contrast has been greatly accentuated in recent times with the rise to prominence of the Tobin tax on the international political scene. With his good manners and sense of balance, Tobin has tended to treat the fame that this has brought him with self-deprecating irony. This gracious humility is of a different era to that of today's brimming narcissism, but it never went so far as to affect his civic passion and political commitment.

Tobin's scientific research is very extensive. The document by which the Swedish Academy of sciences conferred on him his Nobel prize for economics in 1981 testifies to this: "It can be said that few contemporary economists have had a comparably inspiring influence on economic research". And his theory concerning portfolio choices, though half a century old by now, continues to represent a reference point for much macroeconomic and financial analysis.

A potential key to reading Tobin's vast scientific output can be found in his conviction, borrowed from Keynes, that politics can and should exercise considerable influence on the dynamics of economic systems. The basic version of Tobin's theory calls for extensive powers for economic policy-makers. They should be able to significantly affect the level and structure of revenues from financial activity and from existent capital in a given country. With appropriate moves to extend their mandate, the authorities should be able not only to reduce interest rates and the accompanying burden of public debt, but also to stimulate private investment, and thence employment, production and distribution of revenue, both in the short and long term (which says a lot about attempts to vulgarise Tobin as a simple advocate of "stabilisation" policies).

The considerable powers that Tobin's macro-economic theory proposes for political authorities make his ideas extremely relevant to the current debate.

In this vein, Tobin has always hotly disputed the "tied hands" ideology, which holds that political intervention in economics is always useless, if not downright harmful. In the years of the monetarist counter-revolution and its unfortunate application by Ronald Reagan and Margaret Thatcher, Tobin was a lucid and calm polemicist in the debates surrounding the theory those political experiments claimed as their basis. Tobin's favourite target was an epistemological clause championed by Friedman, which stated that "Builders of economic models" should be entitled to suppose that families, businesses and other economic operators act within the system as though they were resolving highly complex optimisation problems. Tobin always held this notion of the "mathematician housewife", which persists today in many of the most prestigious seats of academia, to be a dubious shield, sheltering reactionary policies that favoured inequality and were indifferent to unemployment and poverty.

Naturally, Tobin's convictions about the potential for political intervention in the economy never prevented him from recognizing the limits that could be imposed on such intervention. Moreover, his original model, developed over the 1950s and 1960s, imagined one country functioning in isolation from the rest of the world. With the expansion of international transactions, commercial and above all financial, Tobin recognised the need for numerous adjustments of his theory. These pointed to a much more modest role for public intervention. In particular, the free circulation of capital often made the political authorities incapable of changing the levels and structures of businesses' rates of revenue, since in a country open to foreign exchange, these rates are determined at a global level.

The idea of the Tobin tax was born and developed within this context. Its inventor had two fundamental aims for it one moderate, so to speak; the other decidedly more ambitious: to stabilize exchange markets and thus reduce the chances of perverse and irrational capital flight; and to reclaim a certain level of autonomy in the exercise of economic policy for individual countries. The first result would be achieved on the principle that the tax would induce operators to reduce the volume of speculative trading to avoid continual currency conversions. The second stems from the tax's constituting (by discouraging currency exchange) a sort of fiscal cushion between nations, allowing the political authorities to separate, at least in part, their internal trade revenues from those prevalent on international markets. The tax would let politics breathe again: there would be more room to manoeuvre, and the sword of Damocles that is capital flight would go away.

In recent months, respected editorialists in Italy have maintained that Tobin has abandoned his proposal for taxing currency exchange, considering it obsolete. But all my efforts have not led me to a single quotation from Tobin that could confirm this piece of "news". On the contrary. I found that just a few months ago he reaffirmed the absolute theoretical validity and practical feasibility of his proposal. Times being what they are, the misunderstanding should not surprise us: Marx would not have hesitated to speak of "paying the boxers".

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